

# In-Kind Donations – Hidden Assets for your Organization

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## WHAT ARE IN-KIND DONATIONS?

An “in-kind” donation is a contribution of time, service or goods made by a donor to help support the operations or services provided by your organization. It isn’t cash. Therefore the donor does retain a degree of control over the donation, that doesn’t occur when the donor gives you a cash donation. Because of this “relationship, ” your organization should keep the donor well informed on how their donation is being used. What benefits are your organization’s clients receiving because of the donor’s generosity?

Some examples of in-kind donations include:

- bookkeeping service
- copying
- office equipment
- office/meeting space
- printing
- professional services (accounting, lawyer, etc.)
- refreshments
- volunteer time

## In-Kind Donations and Your Organization’s Capacity/Sustainability

### 1. In-Kind Donations are Critical for your Organization’s Sustainability.

- a. substituting in-kind donations for cash adds to your resource pie - your cash can be used to pay for services/goods that you haven’t been able to get donated.
- b. in-kind contributions expand your resource capacity - which can then help you leverage additional resources.

### 2. Risky Behavior - Taking in-kind donations for granted.

In-kind donations sometimes get lost in the shuffle. Make sure your organization doesn’t make one of these mistakes:

- a. You get so use to receiving the donation you forget to acknowledge it.  
This lack of action on your part could seriously hurt your organization’s relationship with the donor – even to the point of the donor deciding not to continue donating to your organization in the future.
- b. You get so use to receiving the donation, you forget to include it in your budget planning estimates.  
If you don’t include the “replacement” value of the donated goods/services in your budget, you risk underestimating your actual revenue needs. You have no control over in-kind donations - if the donor decides to either reduce or drop completely a donation that you were expecting to receive, you will need to find some other funding stream to cover that expense. If you haven’t included the value of donations in your expense projections, you will have likely been hard pressed to find the necessary revenue to cover this unexpected “cash” cost.

### 3. Risky Behavior – Taking “any and every” Donation Offered

You don't need to accept every in-kind donation - just because it is offered. If it isn't something your organization can use – gracefully decline the offer.

#### **4. In-kind donations - building relationships - building sustainability**

Approaching a prospective donor and receiving an in-kind donation provides an opportunity for that person or organization to support your cause without actually investing cash. If the donor likes what you do with their donation (because you keep them informed) they may take an even greater interest in the activities of your organization. An In-kind donation can be the beginning step of a substantial relationship. Look at the following diagram to see how the relationship might progress.

### **Where To Look For In-Kind Donations/How To Approach Perspective Donors**

#### **The Growth of Non-Cash Gifts**

The e-mail Newsletter of The Chronicle of Philanthropy (Jan. 1, 2001) included an article by Debra E. Blum entitled "Corporate Gifts Rose 18% in 1999." The article highlights research done by the Conference Board, a nonprofit research group, on the 1999 contributions of cash and in-kind gifts made by 209 large American manufacturing and service companies. The significance of in-kind donations is stated in the following quotation from this article; "Non-cash gifts represented a growing share of contributions made by companies to American charities as well.

Businesses reported to the Conference Board that 28 percent of last year's domestic donations were in forms other than cash, including products, equipment, real estate and intellectual-property rights. That was more than double the percent reported for non-cash gifts in 1990."

#### **Complementary Funding Resources -**

Included as Attachment A is a diagram and worksheet that suggests a variety of places, both within and outside your community, to look for funding resources. Use the worksheet to stimulate your thinking about potential in-kind donors.

#### **Making Your Case: THE ASK**

Included as Attachment B is an excerpt from the publication, Mobilizing Community Resources, originally created by the Nebraska Community Foundation and reprinted with permission by the Associated Electric Cooperative, Inc.

The segment of the publication reprinted, MAKING YOUR CASE, provides insights on the following critical actions:

- creating a Stump Speech (standardized presentations);
- where to find potential donors;
- the six steps of Solicitation;
- marketing your plan

Copies of the entire publication can be downloaded from the Associated Electric Cooperative, Inc. web-page at: [www.aeci.org/programs/econdev/pdf/frgm.html](http://www.aeci.org/programs/econdev/pdf/frgm.html)

## Management of In-Kind Donations

### In-Kind Journal Creation and Maintenance

Many grants require a “match” of funds or effort equal to a designated percentage of total funds received. In order to meet this requirement, recipients should keep track of donations of office space, meeting space, printing or copying, equipment; use of professional's skills, board members' time, in-direct staff time, and volunteer time.

However, not all donated time or materials may be attributed to every grant. Only the time and materials that are directly applicable to the grant and result in the advancement of the project should be included as an “in-kind” match.

An “In-Kind Account” should be set-up in the General Ledger, with specific sub-accounts for office space donations, printing/copying expenses, equipment use, professional skills, board members' time, volunteer time, etc. set up in subsidiary ledgers. A financial software package such as Quick Books Pro can accommodate this type of general and subsidiary ledger format.

### The Benefits of an In-Kind Journal

Taking the time to design and maintain an in-kind donation journal for your organization will provide you the following three benefits:

- a. It will provide a central collection point for all the in-kind donations (both volunteer time as well as goods/services) your organization receives.
- b. It will provide a reminder for your organization to acknowledge the volunteers/donors for their contributions. Recognition is a critical component of maintaining a strong ongoing relationship with the volunteer/donor. Specific recognition (thank you for the 150 hours of time you donated, or for the donation of the FAX machine valued at \$125) is much more appreciated by your donor than a generic thank you.
- c. An In-Kind Journal will help your organization to assemble the information necessary to provide the appropriate documentation required by the Internal Revenue Service.

### Self-Help Accounting

A helpful resource for a volunteer treasurer setting up a basic accounting system for their not-for-profit organization is the publication, “ Self-Help Accounting: A Guide for the Volunteer Treasurer.” This helpful resource book is divided into two parts. The first eight chapters are aimed at providing basic accounting guidance to the volunteer treasurer of an organization that will raise and spend less than \$50,000 a year. The second part of the publication (chapters 9 – 17) are aimed to assist the volunteer treasurer of a larger organization – one that spends over \$50,000 year. Besides easily understood text, a variety of sample forms are included as well. This publication is available for less than \$15 from:

*Energize, 5450 Wissahickon Ave., Box C13 Philadelphia, PA 19144; (215) 438-8342*

You can also go directly to the Energize web-page: [www.energizeinc.com](http://www.energizeinc.com) and see their complete stock and order on-line. Energize is one of the leading resources related to volunteer management. While at their web-site check out the descriptions of other books such as; From

the Top Down, The Volunteer Recruitment Book, and The Help I Don't Have Enough Time Guide to Volunteer Management.

## Calculating the Value of Typical In-Kind Donations

### I. Donation of office space / meeting space calculation:

- In the event that office space is donated to your organization, the value of the office space can be used as an "in-kind" match. Per square foot value of building, as determined by a local realtor, times the square footage of the building used by the grantee equals the monthly rate. 1,500 square feet x \$10.00 per square foot = \$150 per month
- In the event that meeting space is provided for training or some other function supporting the grant, the value of the meeting space can be used as an "in-kind" match to the extent that the space has NOT already been allocated directly or in-directly to the grant. To determine the value of the meeting space: Obtain documentation from the donating organization as to the rental rate normally charged for the space.

### II. Donation of printing or copying:

- Obtain written documentation from a local printing company, i.e. Kinko's, as to the amount that would have been charged for the service.

OR

- Determine the per sheet expense, based on paper expenses, copying, assembling, etc. and take that amount times the number of sheets copied or printed. \$.02 per page x 1,500 pages = \$30.00

### III. Donation of Supplies, Equipment of Use of the Equipment:

**A.** The value of donated supplies or equipment should be based on original cost, as indicated by an invoice for the supplies or equipment, or the current fair market value, whichever is less.

Example: Fax machine Purchase Date: 1/1/1999 Donated Date: 1/1/2001 Original Cost: \$450 Current Market Value: \$270 (based on information from a business equipment vendor): Value of Donated Equipment: \$270 **B.** If, the equipment has been fully depreciated, and has a \$0 value on the donor's books; the recipient should record the donated supplies or equipment at current fair market value. The dollar value can be determined in various ways:

**1.** The donor can indicate the fair market value of the supplies or equipment. A voucher should be given to the donor describing the equipment received and its value – for taxation purposes. The recipient of the donation should keep a copy of this voucher.

OR

**2.** The recipient of the donation can determine the fair market value of the supplies or equipment by seeking input from appropriate vendors.

### IV. Refreshments Donated for the Meeting

The donating organization should identify, via written documentation, the refreshments donated and the value of the items.

## V. Staff Time

If a staff member's time is NOT charged directly to the grant, via the grant application, and duties performed by a staff person directly benefit the grant, their time may be charged as an "in-kind" donation. However, if the employee is receiving a salary from the grant proceeds, time cannot also be charged as an "in-kind" donation. This would result in double counting of staff time, both directly and through the "in-kind" match calculation.

To determine a dollar value for staff members' time spent directly benefiting the grant: (i.e. in training or meetings)

**A. Determine the per-hour rate of the staff member attending the meeting or the training.**

The hourly rate of a full-time staff member can be calculated by dividing the annual salary by 2,080 hours. For example, the hourly rate of a person making \$25,000 per year would be \$12.02.

$$\$25,000 / 2,080 = \$12.02$$

**B. Additionally, any fringe benefits paid to the employee would be calculated on an hourly basis and included in the "in-kind" match total. To determine the hourly fringe benefit rate, multiply the employee's annual salary by the fringe benefit percentage and then divide the fringe benefit total by 2,080.**

$$\$25,000 \times 27\% = \$6,750 \quad \$6,750 / 2,080 = \$3.25 \quad \text{The TOTAL per hour rate (base + fringe)} = \$12.02 + \$3.25 = \$15.27$$

**C. Any costs incurred by the grantee for staff member travel expenses would be considered an "in-kind" match. Therefore, all costs for travel, meals, hotel, etc. would be listed as an "in-kind" match**

## Donation of Board Members Time

*To determine a dollar value for Board members' time:*

**A. The Board member's time can be determined by researching and documenting the compensation offered to other persons serving on boards within your community.**

The hourly rate times the number of hours attending the Board Meetings or performing other tasks for the organization equals the "in-kind" match value.

**Example # 1:** (Board Member serving in specialized capacity)

Local CPA is a Board Member for the Jefferson City Community Health Coalition (JCCHC). The CPA performs the quarterly and yearly tax filings for the organization. The normal rate for a CPA in Jefferson City is \$35.00 per hour. The CPA spends approximately four (4) hours per quarter and six (6) hours at year-end completing the tax forms and filing the information. Therefore, the "in-kind" calculation for this donation would be:

$$\begin{aligned} &\text{March 2001 Quarterly Tax Preparation } \$35.00 \times 4 \text{ hours} = \$140 \\ &\text{June 2001 Quarterly Tax Preparation } \$35.00 \times 4 \text{ hours} = \$140 \\ &\text{September 2001 Quarterly Tax Preparation } \$35.00 \times 4 \text{ hours} = \$140 \\ &\text{December 2001 Year-end Tax Preparation } \$35.00 \times 6 \text{ hours} = \$210 \\ &\text{Total 2001 In-kind donation (tax preparation)} = \$630 \end{aligned}$$

**Example #2:** (Board member attending quarterly meetings)

A Board member for the Jefferson City Community Health Coalition (JCCHC) attends the quarterly meetings in Jefferson City to discuss issues and make decisions. According to research of other local businesses, the average board member compensation is \$50.00 per

hour. The JCCHC meets quarterly and meetings last approximately four (4) hours. Therefore, the “in-kind” calculation for this donation would be:

March 2001 Quarterly Board Meeting \$50.00 x 4 hours = \$200 June 2001 Quarterly Board Meeting \$50.00 x 4 hours = \$200 September 2001 Quarterly Board Meeting \$50.00 x 4 hours = \$200 December 2001 Quarterly Board Meeting \$50.00 x 4 hours = \$200 T Total 2001 In-kind donation (board meeting participation) = \$800

NOTE: The per-hour rate for professional level services will be dependent upon regional and local differences.

**B.** Additionally, any costs incurred by the recipient to cover Board Member travel expenses or staff member travel expenses would be considered an “in-kind” match. Therefore, all costs for travel, meals, hotel, etc. would be listed as an “in-kind” match.

**C.** Volunteer time can be determined by contacting the local area Chamber of Commerce to seek information on average salaries for positions performing similar tasks.

## Valuing Other Volunteer Time

The following discussion draws upon material explored more completely by Susan J. Ellis, in chapter 11 – The Dollar Value of Volunteers in her 1996 book, *From The Top Down: The Executive Role in Volunteer Program Success*. (This book can be ordered from Energize, (215) 438-8342 or by ordering on-line at their web-page at [www.energizeinc.com](http://www.energizeinc.com).) The quotations in this section are from this publication.

Susan Ellis, provides an interesting insight on how to view volunteer's contributions to your organization: “Too often, in an effort to praise the contributions of volunteers, executives (and legislators) say: “Volunteers save us money!” They may even calculate the total dollar value for these supposed “savings.” ...For now, however, understand that volunteers never “save” money. Do you have money available that you did not have to spend because you utilized volunteers. Hardly. Much more accurate is the recognition that volunteers allow you to spend every dollar you have – and then do more. Volunteers extend the budget.” P. 11

The diagram on the next page helps to illustrate a point made by Susan J. Ellis; “Do not fall into the common trap of using the minimum wage or the national median wage as a basis for your computation. The vast majority of volunteer assignments are worth a great deal more than minimum wage and probably more than the median, too.” P. 163

The Points of Light Foundation placed a national average of \$14/ hr. for volunteer time donated in 1998. Visit their website for more information: [www.pointsoflight.org](http://www.pointsoflight.org) and follow the links to the Volunteer Facts and Stats Sheet.

Henry Flood, in an article entitled, “Valuing Volunteer Time” in the Fall 2001 Grantsmanship Center Magazine (#45) states the following: “What about general volunteer time that may not be tied to specific jobs or titles? Students, ad hoc clerical support, community volunteers and the like fit this broad category. Since 1994, Independent Sector ([www.independentsector.org](http://www.independentsector.org)) has come up with an annual figure that represents an hourly rate for this sort of volunteer time. It is based on the average hourly wage for nonagricultural worker published in the annual Economic

Report of the President. This figure is then increased by 12% to include fringe benefits. For 2000, the rate was \$15.39.”

So does this mean you should use \$15.39 an hour as the general value of any volunteer time contributed to your organization? Probably not! \$15.39 an hour is a great starting point as a national average - but Susan Ellis offers this following guideline: “You must assess the value of each volunteer assignment based on what it would cost you to purchase that type of work in the marketplace.” P. 163

Another guiding principle in valuing the volunteer is:  
The value goes with the task and the appropriate skill level of the person performing the task.

For instance, how would you value the volunteer time spent completing a mailing (sorting letters, stuffing envelopes, affixing stamps, sorting by zip codes):

- Would an attorney volunteering their time to do this task have it valued at \$75 an hour (or whatever their billable hour rate as an attorney is)?
- How about a secretary – whose normal hourly wage is \$8 hour?

In this case the volunteer time of both the attorney and the secretary would be valued at \$8 hour, since this is a task that you would normally expect a clerical level person to undertake. But at the same time, if an attorney volunteered their time to draft a new set of bylaws (and this was a task that they normally did for hire), the organization should value the attorney’s time at the value he/she would have charged to undertake the task.

So, use this two step process to help you determine the volunteer’s time value:

1. Find out what the going rate of hiring that service in your community would be.
2. Determine if the volunteer who is completing the service would have the competency level to offer their services for hire at the going rate you found. If yes, there should be no problem with valuing the volunteer’s time at that community-based rate.

A fair market approach to valuing the volunteer time produces another valuable insight. It helps you begin to see the amount of actual cash you will need to raise to pay for the services provided by your volunteers, if they are unable to volunteer in the future.

## **Valuing Donations Made as Part of Fund-Raising Efforts**

Another type of in-kind donation is those made to support your organization’s various fund-raising efforts.

A recent issue of the Grantsmanship Center Magazine 37 (Winter 1999) p. 12 –14 has an article by John H. Taylor entitled “Your Noncash Gift Questions Answered.”

The Grantsmanship Center provides free subscriptions to this quarterly newsletter. You can contact the Grantsmanship Center at: **TGCI**, Box 17220, Los Angeles, CA 90017; (213) 482-9860; or visit their web-site at [www.tgci.com](http://www.tgci.com)

Valuing in-kind Donations - Three perspectives of the same donation



With any in-kind donation you need to think through three different perspectives in regards to the value you assign that donation;

- the value that your organization acknowledges to the donor (this provides a specific recognition of the donor's contribution);
- the value that you assign to the donation for IRS reporting purposes as well as for purposes of leveraging other potential funders;
- the value that you assign to the service/product provided for budget planning purposes (what would your organization have to pay for this service/product if this donation wasn't donated, but had to be purchased).

#### IRS Rules on Valuing and Substantiating Charitable Contributions

In December 1996, the Internal Revenue Service issued regulations clarifying the federal tax rules on valuing and substantiating charitable contributions.

The Grantsmanship Center Magazine web-page ([www.tgci.com](http://www.tgci.com)) has an on-line archive of past articles. Two past articles which help explain the IRS regulations are:

Contributions and Premiums, by Pamela McAllister, Grantsmanship Center Magazine, Summer 1998. downloadable at: [www.tgci.com/publications/98summer/contribprem.html](http://www.tgci.com/publications/98summer/contribprem.html)

Revised IRS Rules for Substantiation, Disclosure and Business Sponsorship, Grantsmanship Center Magazine, Winter 1998. Downloadable at: [www.tgci.com](http://www.tgci.com)

An excellent resource to provide some insights into this issue is "How Much Really is Tax Deductible?" which is available from the Independent Sector (see address below) for \$7.00.

#### ***OTHER RESOURCES:***

ENERGIZE - one of the leading resources related to volunteer management.

***Energize***, 5450 Wissahickon Ave., Box C13 Philadelphia, PA 19144; (215) 438-8342

You can also go directly to the Energize web-page: [www.energizeinc.com](http://www.energizeinc.com) and see their complete stock and order on-line.

Self-Help Accounting – A Guide for The Volunteer Treasurer, referenced earlier is available from ENERGIZE. While at their web-site check out the descriptions of other books such as; From the Top Down, The Volunteer Recruitment Book, and The Help I Don't Have Enough Time Guide to Volunteer Management.

**GRANTSMANSHIP CENTER** - one of the oldest resource agencies assisting not-for-profit organizations since 1972.

Box 17220, Los Angeles, CA 90017, 213-4892-9860; Web-page: [www.tgci.com](http://www.tgci.com)

The web-site contains downloadable articles from past issues of their quarterly newsletter, The Grantsmanship Center Magazine. Non-profit organizations and government agencies can request a free subscription to their newsletter.

THE INDEPENDENT SECTOR - a coalition of leading nonprofits, foundations and corporations strengthening not-for profit initiative, philanthropy and citizen action since 1980.



1200 Eighteenth St. NW, Suite 200, Washington, D.C. 20036; 202-467-6100; Web-page: [www.independentsector.org](http://www.independentsector.org)

The web-site includes features articles on current trends impacting nonprofits as well as a list of publications that can be purchased.

INTERNET NONPROFIT CENTER - This site contains the INC Library and the Non-profit FAQ, both of which provide insights into a variety of topics useful to nonprofit organizations.

Web-page: [www.nonprofits.org](http://www.nonprofits.org)

### **IRS PUBLICATIONS:**

Several Internal Revenue Service publications provide insights into the requirements for acknowledging donations to your organizations. These publications include;

Publication 526 - Charitable Contributions (rev. Dec. 2000)

Publication 561 - Determining the Value of Donated Property (rev. Febr. 2000)

Publication 1771 - Charitable Contributions - Substantiation and Disclosure Requirements (March 2002)

[www.irs.gov](http://www.irs.gov)

This resource book is designed to give you a broad overview of how in-kind donations can be incorporated into your not-for-profit organization's resource development efforts. We hope this survey regarding key ideas on how to recruit, record and acknowledge In-kind donations will help strengthen your organization. We welcome your ideas on how to improve this resource guide as well as any questions you have about the material herein. Please contact us at:

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